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Before the
Tennessee Regulatory Authority
Docket No.: 04-00288

TENNESSEE-AMERICAN WATER COMPANY

Direct Testimony of

Dan Nuckolls

In behalf of

Chattanooga Manufacturers Association

Direct Testimony of Dan Nuckolls

Q. Please state your name, business address and occupation.

A. I am Dan Nuckolls, Director of Operations and Maintenance for Koch Foods, LLC. My business address is 1835 Kerr Street, Chattanooga, Tennessee 37401.

Q. What are your principal responsibilities as Director of Operations and Maintenance of Koch Foods, LLC?

A. I am responsible for all plant operations, plant maintenance, export logistics and special projects involving my company's production facility in Chattanooga and feed mill in Hamilton County, just outside of the Chattanooga city limits.

Q. Please outline your educational and professional training and experience.

A. I received a Bachelor of Business Administration degree with an emphasis in management from West Georgia State University. I also have an Associate's degree in Architectural Engineering Technology from Southern Tech in Marietta, Georgia. I have worked in the poultry industry for 22 years with the following companies: Con-Agra, Seaboard Farms and Koch Foods. I have been with my present company, Koch Foods, for almost seven years. I have been titled as Director of Operations and Maintenance at Koch Foods, LLC's Chattanooga facility since 2002.

Q. Have you previously submitted testimony for the Chattanooga Manufacturer's Association ("CMA") Intervention Group to this Authority?

A. Yes, I have. I provided similar testimony last year in opposition to Tennessee-American Water Company's request to increase rates.

Q. What is the subject of your testimony?

- A. I am presenting information opposing the Tennessee-American Water Company's petition to again increase water rates within such a short time after a rate increase was implemented.
- Q. **Have you prepared any exhibits to accompany your testimony?**
- A. No.
- Q. **Have you held positions in any trade associations that involved water or utility issues?**
- A. No; but, I have been elected to CMA's Board of Directors.
- Q. **Does your company have a facility located in Hamilton County, Tennessee that utilizes water supplied by Tennessee-American Water Company (TAWC)?**
- A. Yes. Koch Foods has two facilities located in Hamilton County, Tennessee that employ 265 people. The production facility in Chattanooga has been in operation since March, 1996, and the Chattanooga facility has been in existence for over 40 years (as Koch or a predecessor). Our company has facilities in five states other than Tennessee, and the Tennessee operations generate about \$300 million per year in economic impact for the state economy.
- Q. **Please describe the type of labor that your company uses in its manufacturing and production processes in Chattanooga.**
- A. Our company provides jobs for lower skill levels requiring a high school education or less, as well as very technical occupations and careers requiring college and post-graduate degrees.
- Q. **Please describe your company's use of water in its manufacturing and production processes in Chattanooga.**
- A. Koch Foods utilizes approximately 1.2 million gallons of water per day in its manufacturing and production processes. Water is used in the process of poultry slaughter, for cleaning and chilling of our products, and for purposes of sanitizing the production facility.

Q. How much TAWC water is used in your Chattanooga production facility?

A. Koch Foods utilizes approximately 1.2 million gallons per day as noted above, which equates to almost one-half billion gallons annually. This volume could increase by as much as 200,000 gallons per day in March, 2005.

Q. Does your company have an alternative material to use for the production processes and other operations currently supplied by TAWC water?

A. No.

Q. Please explain.

Q. The United States Department of Agriculture requirements mandate the use of water meeting regulatory guidelines in various stages of our operations. Due to the high volume of water usage, while some alternatives may be available to reduce our TAWC water intake, there would never be a truly competitive alternative to the use of TAWC water in our facility.

Q. Is water the cleanest, most efficient raw material your company can use?

A. Yes.

Q. Does your company have the ability to bypass TAWC's water lines?

A. Not to my knowledge; however, we are actively investigating our options in this regard.

Q. Do you understand that the water company does not want you to reduce the amount of water usage, or invest in a reduction technology, but instead intends to raise the price your Company would pay for water again this year?

A. Yes, that is my understanding.

Q. Describe the impacts on your facility or production processes that the Tennessee-American Water Company's proposed rate increase will have if approved by the Tennessee Regulatory Authority.

A. As I indicated about one year ago, the poultry industry has been operating on small margins for several years. The past year has been an “up” year for the industry, but markets have already declined. An increase in the water rates will only add to the hardships of operating successfully in the food production industry. Koch Foods is involved in a pure commodity-based industry and does not have the luxury of simply raising its prices equivalent to the production cost increases it will experience if the water rates are allowed to be raised again as requested by Tennessee-American Water Company.

Q. From your point of view would Tennessee-American Water Company’s petition constitute an appropriate water delivery service pricing policy for the State of Tennessee?

A. No, not in all respects. I cannot understand the proposed increase at the levels requested when considering the increase that was imposed by the Water Company just months ago. If a non-monopoly provider attempted such an overall rate increase within such a short time-frame, then I would immediately search out a new supplier. Unfortunately, TAWC is the only delivery company in town unless my company can build its own pipeline or drill its own well to supply adequate water. I cannot imagine why the State of Tennessee would want to foster widespread bypass activity or reduced intake activities by those that have the ability to do so. Nor can I understand why or how a monopoly would ever be allowed to abuse an exclusive franchise by again seeking to raise its rates at the expense of its customer base.

Q. Are there any other impacts to your production facility that will result from a price increase for water rates?

A. Of course, if water costs increase, then our facility will investigate further the potential investment of capital to reduce water intake as much as possible. While Koch Foods seeks to

operate as efficiently as possible, it would not foreclose an opportunity to further reduce water intake to the Chattanooga production facility if analysis indicated such an investment would be feasible and more beneficial than water usage in the long term. Of course, such water use conservation investment becomes more economical as Tennessee-American Water Company's water prices increase.

Q. Would your Chattanooga facility operate at a competitive disadvantage if Tennessee-American Water Company's proposed price increase was implemented?

A. Yes. Increased water rates would immediately put my facility at a disadvantage considering the amount of water used and the very tight margins in the poultry industry.

Q. Please explain.

A. Certainly. Koch Foods has invested a significant amount of money in the Chattanooga, Tennessee operation. Of course, we would like to continue to attract additional investment in this production facility; however, to the extent that the margins are lowered or extinguished due to increased water costs, then capital investment and jobs would not be assigned or implemented in the Chattanooga facility but could go elsewhere, including any of the five other states in which Koch Foods already operates or to another state. We are scheduled to complete a \$10 million expansion of the Chattanooga facility in order to increase production and, consequently, the volume of water used. This proposed increase is coming at a time that we planned to use more water and could negatively impact the proposed expansion and future growth at this facility.

Q. Assuming that some rate increase is granted by the TRA to Tennessee-American Water Company, how do you believe that increase should be allocated?

A. I believe that each class of customers should pay its fair share for actual water usage, based upon what it costs to actually provide service to the customer. I do not believe any customer class should subsidize another customer class.

Q. Does Koch Foods have private fire protection in place?

A. Yes, Koch Foods is required to have certain fire protection equipment on site which includes wet and dry sprinkler system, portable extinguishers and alarm system.

Q. Assuming that the revenues related to fire protection are allocated to customer classes other than municipalities, how will that affect Koch Foods?

A. That depends. So long as the allocation of fire protection-related revenues is made on a non-volumetric, per meter basis, that increased cost to our production facilities would have to be included in our margins. Such an increase likely would be damaging, but tolerable. However, we would not be able to understand or suffer any fire protection allocation based upon our volumetric usage of water in calculating the appropriate amounts that we might be charged for fire protection services, especially considering that we have some fire protection services on site.

Q. Does this complete your testimony in this rate increase proceeding?

A. Yes.